

Message Text

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ACTION NEA-10

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INFO AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KATHMANDU
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

LIMITED OFFICIAL USE NEW DELHI 1636

E.O. 11652: N/A
TAGS: ETRD, IN, NP
SUBJECT: INDIA-NEPAL TALKS ON TRADE, TRANSIT AND SMUGGLING

REF: KATHMANDU 0530

1. SUMMARY: LATEST ROUND OF INDIA-NEPAL ECONOMIC TALKS HAS RESULTED IN NARROWING OF DIFFERENCES ON TRADE AND TRANSIT TREATIES (INCLUDING PROTOCOLS) AND A DRAFT AGREEMENT ON SMUGGLING. BOTH SIDES ARE HOPEFUL THAT FINAL AGREEMENT CAN BE REACHED IN NEXT MONTH OR TWO. END SUMMARY

2. THIRD ROUND OF BILATERAL TALKS ON TRADE, TRANSIT AND SMUGGLING TOOK PLACE IN DELHI JANUARY 17-25, 1978. ACCORDING TO THE GOI PRESS NOTE RELEASED AT THE CONCLUSION OF THESE TALKS, QUOTE BROAD UNDERSTANDING HAD BEEN REACHED ON THE FRAMEWORK OF THE AGREEMENTS ON THE THREE ISSUES UNQUOTE.
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MINISTRY OF COMMERCE JOINT SECRETARY PRASAD TOLD EMBOFF THAT THE DIFFERENCES BETWEEN THE TWO SIDES HAD NARROWED, THAT BOTH GOVERNMENTS WANTED A SETTLEMENT, AND THAT IT WAS QUOTE ALMOST CERTAIN UNQUOTE THAT AGREEMENTS WOULD BE REACHED IN THE NEXT ROUND OF TALKS IN KATHMANDU. HE THOUGHT THAT DISCUSSIONS WOULD TAKE PLACE IN ONE OR TWO MONTHS. NEPALESE EMBASSY COUNSELLOR JAI RANA WAS SIMILARLY OPTIMISTIC THAT THE FOURTH

ROUND WOULD BE THE LAST ONE. RANA PROVIDED TO US THE FOLLOWING DETAILS ON THE RECENT TALKS.

3. TRANSIT: ACCORDING TO RANA, GOI HAS MADE SOME CONCESSIONS TO ENABLE EASIER TRANSIT OF NEPALESE GOODS THROUGH INDIA, BUT THERE ARE STILL PROBLEMS TO BE WORKED OUT. INDIA HAS NOT AGREED TO UNLIMITED RIGHT OF TRANSIT, AS GON HAS REQUESTED, FOR FEAR OF COMPLICATING INDIA'S POSITION IN THE LAW OF SEA CONFERENCE. RANA SAID THAT THE GOI WAS UNWILLING TO SPECIFICALLY NAME ALTERNATE PORTS (BOMBAY AND PARADIP) FOR THE TRANSIT OF NEPALESE GOODS BUT HAS INDICATED WILLINGNESS TO HAVE THE TREATY MENTION THE AVAILABILITY OF ALTERNATE PORT FACILITIES ON AN AD HOC BASIS. HE NOTED THAT NEPAL WOULD LIKE TO BUILD ITS OWN FACILITIES AND RECRUIT ITS WORK GANG IN CALCUTTA, BUT THAT INDIA WOULD ONLY ALLOW NEPAL TO RENT PORT FACILITIES. ACCORDING TO RANA, THE GOI WAS AGREEABLE TO THE TRANSIT TREATY PROVIDING FOR NEPALESE AND BANGLADESH BILATERAL TRADE THROUGH INDIA, BUT NOT TRANSIT OF NEPALESE GOODS THROUGH BOTH INDIA AND BANGLADESH. THE GOI WANTS A TRIPARTITE AGREEMENT ON THIS MATTER. RANA SAID THAT A SEPARATE BILATERAL NEPAL-BANGLADESH AGREEMENT ON EXPORTS OF NEPALESE GOODS FROM BANGLADESH PORTS HAD ALREADY BEEN WORKED OUT, BUT SPECULATED THAT THE GOI WANTS TO USE NEPAL TRADE TO BARGAIN WITH THE BDG ON BETTER INDIAN TRANSIT RIGHTS TO ITS EASTERN STATES. RANA SAID THAT THE LENGTH OF THE TRANSIT TREATY HAD NOT YET BEEN DECIDED; IT COULD BE 5 YEARS WITH AN LIMITED OFFICIAL USE

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EXTENSION FOR ANOTHER 5 YEARS, OR 3 YEARS PLUS 2, DEPENDING ON THE NATURE OF THE TREATY'S FINAL PROVISIONS.

4. TRADE: RANA TOLD US THAT MOST TRADE PROBLEMS HAD BEEN SETTLED. NEPAL HAD ASKED FOR A GUARANTEED SUPPLY OF ESSENTIAL (DEVELOPMENT) GOODS. THE GOI COULD NOT FORMALLY AGREE TO THIS, BUT INDICATED INFORMALLY THAT IT WILL DO ITS BEST TO DO SO. RANA SAID THERE WAS STILL DISAGREEMENT ABOUT THE EXPORT OF NEPALESE INDUSTRIAL GOODS TO INDIA. THE GON WANTED THE GATT RULES TO APPLY (I.E., 50 PERCENT RULES OF ORIGIN REQUIREMENT) BUT THE GOI HAS NOT YET AGREED. ALSO, THE DURATION OF THE TRADE TREATY STILL HAS TO BE WORKED OUT.

5. SMUGGLING: ACCORDING TO RANA, FOUR DAYS OF THE RECENT TALKS WERE DEVOTED TO SMUGGLING, WITH THE RESULT THAT THERE WAS NOT ENOUGH TIME TO DISCUSS FULLY TRADE AND TRANSIT ISSUES. HE SAID THAT A DRAFT AGREEMENT ON SMUGGLING HAD BEEN REACHED. INDIA HAD WANTED A CHANGE IN NEPALESE POLICIES (E.G., EXPORT INCENTIVE SCHEME) TO DISCOURAGE THE SHIPMENT OF SMUGGLED GOODS. THE NEPALESE HAD RESPONDED THAT SMUGGLING WAS DUE PRIMARILY TO THE OPEN BORDER RATHER THAN THEIR POLICIES. AS A RESULT, THERE WAS AGREEMENT THAT NEPALESE POLICIES WOULD NOT

BE CHANGED BUT THAT THE GON WOULD ATTEMPT TO POLICE THE BORDER
BETTER.

6. POWER PROJECTS: REGARDING INDIA-NEPAL COOPERATION ON
HYDROELECTRIC PROJECTS IN NEPAL, RANA TOLD US THAT THE GOI
HAS AGREED TO THE SITE OF THE RAPTI PROJECT AND HAS ACCEPTED
THE PRELIMINARY COST/BENEFIT ESTIMATE DONE BY THE NEPALESE.
AN IMPORTANT QUESTION NOW PENDING IS THE MAJOR FEASIBILITY
STUDY: THE GON WANTS INTERNATIONAL CONSULTANTS AND TENDERS,
WHILE THE GOI PREFERS AN INDIAN CONSULTANCY FIRM. RANA HOPED
THAT THIS MATTER COULD BE SETTLED AT THE NEXT MEETING OF THE
BOARD (WHICH INCLUDED TWO INDIAN OBSERVERS) WOULD PROBABLY
BE HELD IN FEBRUARY. HE SAID THAT THE GOI CLAIMED IT WOULD BE
WILLING TO PAY FOR 20-25 PERCENT OF THE COST OF THE PROJECT.
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HE WAS HOPEFUL THAT THE BOARD COULD AGREE ON A JOINT GOI-GON
APPEAL TO THE WORLD BANK AND THE ASIAN DEVELOPMENT BANK FOR
FINANCING OF KARNALI.
GOHEEN

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